

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT



FINAL REPORT

for

Contract PCE-I-00-98-00013-00, Task Order 810

Assessment of Corruption and Red Tape as Barriers to Trade and Investment in Mozambique

Task Order Start Date: October 1, 2002

Task Order End Date: December 2, 2002

USAID/Mozambique CTO: Timothy Born

USAID/Mozambique RCO: Gail H. Warshaw

USAID/DC SEGIR GBTI CO: Mark Walther

Report Prepared by: Diane Eames and Alain Thery, Booz Allen Hamilton

Report Submitted by Booz Allen Hamilton, 8283 Greensboro Drive, McLean, Virginia 22102

Contact Person: Norm Kirsch, Program Manager, Booz Allen, Telephone (703) 902-5896, Facsimile (703) 917-2379, email kirsch_norm@bah.com

December 2, 2002

Booz | Allen | Hamilton

delivering results that endure

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
I. INTRODUCTION	6
I.A. Nature and Purpose of Assignment	6
I.B. Organization of Report	6
I.C. Context	7
II. RED TAPE AND CORRUPTION.....	8
II.A. Costs and Benefits of Administrative Requirements.....	8
II.B. The Impact of Red Tape on the Cost of Investment	9
II.C. Corruption.....	10
II.C.1. Relation of Red Tape to Petty Corruption	10
II.C.2. “Grand” Corruption and the Criminal State.....	10
II.C.3. Causes of Corruption	12
II.C.3.i. The Traditional Approach	12
II.C.3.ii. The Systemic Approach	13
II.C.3.iii. Costs of Corruption to Business.....	14
II.C.3.iv. Economic Costs of Corruption	17
III. RED TAPE AND CORRUPTION IN MOZAMBIQUE.....	21
III.A. Brief Description of Mozambique	21
III.B. Red Tape in Mozambique.....	21
III.B.1. Evidence of Red Tape.....	21
III.B.2. Business Perceptions of Red Tape	22
III.B.3. The Current Framework to Address Red Tape	24
III.B.4. Specific Priority Concerns Regarding Red Tape	24
III.C. Corruption in Mozambique.....	26
III.C.1. Petty Corruption.....	26
III.C.2. Grand Corruption.....	27
III.D. Illustrative Estimate of the Cost of Corruption.....	28
IV. ADDRESSING RED TAPE AND CORRUPTION IN MOZAMBIQUE	31
IV.A. Strategy and Overall Objectives	31
IV.B. Principles for Intervention.....	31
IV.B.1. Overarching Principle: Transparency	31
IV.B.2. Implementation Principles: Selectivity, Simplicity, Synergy, Stop-Loss.....	32
IV.C. Addressing Red Tape.....	32
IV.C.1. A Step-by-Step Approach to Maximize Success and Impact of Intervention	33
IV.C.2. Risks Involved in Addressing Red Tape	34

IV.C.3. A Special Case: Access to Land	34
IV.D. Addressing Corruption.....	35
IV.D.1. Preliminary Consideration: The Extent of Political Will to Address Corruption	35
IV.D.2. Proofs of Political Will and Commitment to Address Corruption.....	36
IV.D.3. Stop-Loss: Private Business, Civil Society, International Agencies	37
IV.D.4. Methods to Produce Transparency, Create Synergy, and Enforce Stop-Loss.....	38
IV.D.4.i. Means for the Private Business Community	38
IV.D.4.ii. Methods for Civil Society and its Representative Organizations	39
IV.D.4.iii. Methods for the Government of Mozambique	40
IV.D.4.iv. Methods for USAID	41
V. CONCLUSION.....	43

EXHIBITS:

EXHIBIT 1: Scope of Work (SOW)

EXHIBIT 2: Passos Necessarios Para a Montagem de um Negocio em Mocambique
(prepared by SAL Consultaria e Investimentos, Lda.)

EXHIBIT 3: Illustrative Cases of Red Tape

EXHIBIT 4: Bibliography

EXECUTIVE SUMMARY

In connection with the preparation of its Country Strategic Plan (CSP) for 2004-10, USAID/Mozambique retained Booz Allen Hamilton to assess:

- Red tape and corruption in Mozambique, their costs to business and how they act as barriers to trade and investment;
- The role that the private sector (the private business community as well as civil society at large) can play in reducing corruption; and,
- Whether and how USAID can incorporate effective interventions into its next CSP.

This assessment was performed by a two-person team, Diane Eames and Alain Thery, during the period October 4 to October 24, 2002. The assessment relies on written materials provided by USAID regarding the situation in Mozambique; interviews with businesspeople in Maputo arranged by USAID for the team; a wide range of international development, scholarly, and media literature; and the team's previous experience in the issues, in Mozambique, and in the developing world in general. SAL Consultaria e Investimentos, Lda., provided valuable input, including but not limited to the information in Exhibit 2.

The Problem

In 2002, Mozambique can boast of a decade of national peace, stable democratic government, and economic growth. At the same time, the country has shown disturbing signs of dysfunction in day-to-day government processes and alarming indications of corruption at all levels of government. These conditions threaten not only Mozambique's potential for economic growth and poverty reduction, but also its fledgling democracy.

Red Tape and Corruption: Their Costs and How They Act as Barriers to Trade and Investment

Red Tape

- Red tape and corruption adversely affect private investment and business activity, which provide the financial foundation for economic growth, employment, and government services.
- "Red tape" is a shorthand for excessive, confusing, or meaningless regulation which does not support a legitimate governmental purpose or which costs more in application and compliance than the benefit it provides. Red tape, even when well administered, adds unproductive costs to business activity. When applied arbitrarily and inconsistently, however, red tape creates not only additional costs, but uncertainty as well, thus creating risks for business.

- Red tape can have more serious consequences, however, in that it may provide a pretext and a tool for petty corruption by public officials who may exercise personal discretion in performing their jobs as a means to extract "rent" in the form of bribes or favors.

Corruption

- The prevalence of petty corruption may be a sign that "grand" corruption is also present. If not arrested, grand corruption may lead to the complete subjection of the government apparatus to the personal uses of public officials; the diversion of legitimate tax revenue into the personal accounts of public officials; the substitution of legitimate tax revenue with profits derived from domestic and international criminal activities, thereby financing government operations using unsustainable or patently illegal sources; and, finally, the disintegration of the state itself. This progression has been called the "criminalization" of the state.
- Contrary to traditional analyses of corruption, which focused on conditions in civil service, such as low pay and limited capacity, which might create incentives for graft, recent research takes a "systemic" approach. That approach concludes that corruption is a result of policy decisions at the highest level and, further, that those decisions are based on subjective comparisons of the present discounted values of the costs of, and the expected future gains from, addressing the problem. Taking this systemic approach, it follows that raising the near-term costs of inaction may motivate the authority to take measures to reduce corruption.
- In making investment decisions, a business compares the amount of money it expects an activity will "return" to the expected cost to be incurred and the amount necessary to compensate it for perceived risks. If the analysis indicates a loss, the business will decline to invest in the activity and will seek alternative investments in which it can expect to achieve gains.
- Corruption affects business both by raising the costs of investment (i.e., the additional and unproductive direct and indirect costs of graft) and by creating uncertainty in the costs which will be incurred. Uncertainty creates "risks" to investment, which business views as additional, unquantifiable costs. Unquantifiable costs destroy the basis for fair competition among businesses.
- Because corruption destroys business's ability to quantify costs, it eliminates legitimate competition and, thus, the economic efficiencies competition creates. In addition to the economic and financial risks corruption causes, the resulting misuse of resources causes civil unrest, bringing social and political risks into the equation and increasing "country risk," which can become an absolute disincentive to legitimate business investment.
- Corruption adversely affects public investment by distorting investment analyses towards decisions that will lead to the personal enrichment of officials, resulting in inferior or inappropriate infrastructure; lesser quality and quantity of public

goods and services; and diminution of the tax and duty revenues necessary to support proper government functions.

The Situation in Mozambique

Red Tape

- Red tape is a serious problem in Mozambique and, as such, has received considerable attention. Last year, the private sector and government created an institutional framework for dialogue and change. While their efforts have not yet produced significant improvements, the issues have been raised.
- Dedicated attention on the part of the private and public parties working in the established framework, with appropriate support from international agencies, should contribute to reducing the barriers that red tape presents to business activity in Mozambique.

Corruption

- Corruption in Mozambique is widespread, if not endemic, and presents a serious, as-yet-unaddressed threat to all sectors in the country. Mozambique has, in fact, developed an unenviable worldwide reputation for corruption, as publicized by the international press and rated by international surveys.
- Applying the results of recent studies and considering both loss of effective foreign direct investment (FDI) and foregone FDI, corruption in Mozambique can be viewed as having reduced FDI by over 50%. These findings lead to the inescapable conclusion that GDP growth remains below its potential at least in part because of corruption.

A Strategy to Reduce Corruption

The business community, civil society, and international agencies such as the international financial institutions (IFIs), multilateral organizations, and bilateral donor agencies, must work together to develop and sustain the political and private will to fight corruption and to restore Mozambique's potential for economic growth and democratic development. To do so, they must raise the costs faced by decision-makers for continued government failure to address the problem, and thereby motivate those decision-makers to take effective action to reduce corruption.

To increase the stakes of official inaction, each force for change must use the weapons appropriate to it.

- The private business community should push for transparency in selected areas, such as administrative procedures and procurement, and should pledge support to candidates for public office who prove their commitment to change.
- Other civil society groups should promote transparency in their programs through consciousness-raising and monitoring groups, and should use the vote as a weapon against corruption.

- International agencies should promote transparency in government administration and accounts, by demanding accurate reporting of use of funds, attaching “conditionalities” or conditions to funding, and refusing to provide further funds in the absence of effective government action against corruption.

The forces for change should adopt complementary strategies based on the overarching principle of **transparency** and the implementing principles of **selectivity** (targeting), **simplicity** (nature of activities), **synergy** (mutual reinforcement across sectors and programs), and **stop-loss** (conditions and enforceable sanctions).

There are numerous activities that the private business community, civil society at large, the Government of Mozambique, international agencies, and USAID may pursue, consistent with their roles, resources, and influence, to create political and private will to reduce the effects of corruption. Examples are listed in Section Four, and citations are provided in the Bibliography (*Exhibit 4*).

The Role of USAID

Corruption presents a grave risk to USAID's investment in Mozambique's economic growth, democratic system, and political stability. To protect and insure an adequate return on its investment, USAID should support the private business community, civil society at large, and the Government of Mozambique in the fight against corruption through specific interventions, "stop-loss" conditions and sanctions, and coordination with other international donors and funders.

Interventions

- Support specific private initiatives that aim to increase transparency and ethical business activity and public service.
- Seek synergies among initiatives.
- Advocate government disclosure, audit, strengthening of internal controls, and enforcement of anti-corruption policies.

Stop-Loss Conditions and Sanctions

- Be prepared to discontinue support of initiatives that do not meet reasonably attainable benchmarks of success.
- Include a Code of Ethics in contracts of all project employees, with contract termination in case of violation.
- Monitor interventions closely and in real time.

Coordination

- Work toward achieving coordination among donor-supported initiatives
- Advocate proactive joint donor monitoring of the government's use of external assistance.

- Consider conditioning assistance on donor representation on audit committees for national accounts and on the Board of Directors of any organization established to control corruption.

Conclusion

Corruption has been compared to garbage. To control its effects, "it has to be collected everyday." Militant promotion of transparency and the threat of democratic and economic sanctions must become a permanent part and condition of the activities of the private business community, civil society at large, and the international agencies.

The adversaries of corruption must understand that the principles they espouse and the means they employ in the fight must not be temporary. Corruption is a constant, not a transitory, problem, and it must be controlled by social norms integral to the society and by institutions integral to the system of government.

I. INTRODUCTION

I.A. NATURE AND PURPOSE OF ASSIGNMENT

For purposes its Country Strategic Plan (CSP) for 2004-10, and in connection with a proposed strategic objective to "increase labor-intensive exports," USAID/Mozambique has contracted with Booz Allen Hamilton to assess corruption and red tape as barriers to trade and investment, and to recommend whether and how USAID can effectively intervene. (*See Exhibit 1, Scope of Work.*)

With respect to the adverse effects of red tape and corruption on business activity, this report offers:

- Information and perceptions regarding red tape and corruption in Mozambique, including their impact on individual business decisions and their effect on total investment, that were gathered in interviews arranged by USAID for the team in-country and described in materials supplied by USAID;
- International perspectives on causes and effects of red tape and corruption, as well as controls that can be placed upon them;
- Suggestions regarding the role the private business community can play in reducing the effects of corruption; and,
- Options for USAID interventions.

I.B. ORGANIZATION OF REPORT

This assessment approaches its subject from two standpoints, characterized as the "business " and the "economic" perspectives. First, drawing on international experience, the report:

- Describes the phenomena of red tape and corruption, their interrelationship, and their general effects on business per se and on the economy in general;
- Reviews how red tape and corruption represent additional costs to business and to the economy, and how those costs affect investment decisions; and,
- Sets forth an approach to quantify the economic impact of corruption.

Second, on the basis of materials provided and personal interviews arranged by USAID, the report:

- Describes the evidence of red tape and corruption in Mozambique; and,
- Gives an indicative illustrative measure of the potential cost to the economy.

Third, with respect to reducing the adverse effects of red tape and corruption on investment in Mozambique, the report:

- Recommends principles and methods of a strategy;
- Suggests what actions the private business community, civil society, the Government of Mozambique, international agencies, and USAID can take; and,
- Provides examples of initiatives that have been implemented by other countries.

I.C. CONTEXT

Although Mozambique has undergone a number of structural reforms over the last decade and a half, and has sustained a fairly high growth rate in the last few years, the persistent impression exists that the economy is performing well below its potential and has yet to achieve the growth rate necessary to rapidly reduce the country's poverty indicators. A number of recent surveys and studies have identified excessive administrative requirements, or “red tape,” and corruption as severe impediments to an acceleration of business activity in Mozambique.

II. RED TAPE AND CORRUPTION

II.A. COSTS AND BENEFITS OF ADMINISTRATIVE REQUIREMENTS

To balance the divergent interests of the public, the government creates a framework or system of laws, rules, and regulations to guide and order the allocation of resources. Administrative requirements support and document that system. What business may consider unwarranted administrative requirements are often in fact an essential part of the legitimate role of the state in balancing the divergent interests of the citizenry. Requirements such as registration, reporting, licensing, and disclosure contribute to the system's fairness and consistency by qualifying people for resource use and notifying other interested parties of the rights and obligations attached to such qualification. For instance, registration protects property rights; licensing attempts to insure competence; and certification promotes the safety and quality of products and services.

Although administrative requirements are necessary and beneficial in a complex society, compliance with them involves costs which business must consider in making its decisions. Such costs might include processing fees (e.g., registration, appraisal), professional and technical fees (e.g., attorneys, accountants), the cost of time to process, and so forth.

For administrative requirements to be efficient, provide accurate information, insure fairness and consistency, and avoid nonproductive effort and cost in compliance, they should:

- Have a clearly identified purpose related to legitimate rights of the government, the applicant and other concerned parties;
- Not impose undue costs on some parties to the unfair benefit of others;
- Be transparent and comprehensible;
- Be within the implementation capacity of the government; and,
- Be consistently applied.

When administrative prerequisites are clear and consistently applied, business can identify what it must do to comply and can quantify related costs with a high degree of certainty.

Although rules, regulations, and procedures create costs for business, they also provide business with valuable information regarding other variables which might carry additional, and possibly more significant, costs, including the rights the business has vis-à-vis other parties, such as employees or claimants to property, and what other parties and the general public are entitled to expect of the business.

By alerting business to possible risks and by identifying costs outside the administrative process itself, sound administrative requirements help business assess

investment potential. For example, if a business wishes to build a facility in a particular location, the registry of deeds, liens, and restrictions is essential in determining the probability and cost of acquiring rights to the property.

II.B. THE IMPACT OF RED TAPE ON THE COST OF INVESTMENT

Administrative requirements fail to serve society's interests in providing a fair and consistent framework for business activity when their objectives are improper or unclear and when the procedures necessary to meet them are unduly complicated, overlapping, inconsistent, or duplicative.

"Red tape" has its origin in the red tape used to physically bind official documents in England. It has since become a shorthand for excessive, confusing, or meaningless regulation which does not support a legitimate government purpose or which costs more in application and compliance than the benefit it provides.

Red tape adds direct and indirect costs above and beyond those occasioned by sound, well-designed administrative requirements. These costs include additional fees, salaries and other specific expenses; additional time required for processing; and additional costly elements, such as frequent delays and difficulties in planning and sequencing numerous steps.

At best, therefore, red tape is an irritant and added inefficiency factor, not only for business and but for government itself. Charles Dickens may have had those effects in mind when he described "Britannia" as "that unfortunate female...always before me, like a trussed fowl: skewered through and through with office-pens, and bound hand and foot with red tape" (David Copperfield). Similarly, Theodore Roosevelt was primarily concerned with governmental inefficiency in increasing military preparedness when he railed against "the bureaus in Washington [which] were absolutely enmeshed in red tape, and were held for the most part by elderly men, of fine records" (The Strenuous Life).

If administrative requirements are consistently applied, the red tape they produce, even though excessive, does not, in itself, create uncertainty. Assuming equality in enforcement, businesses can estimate the costs of compliance with reasonable confidence, negating competitive advantage or disadvantage for any particular business.

If, however, their application is arbitrary, uneven, or influenced by personal connections, such administrative requirements create unpredictability, not just in the cost of compliance with the procedures themselves, but in the standards and expectations of business operations and performance upon which fair competition is based. This more substantive effect may reduce confidence and trust in business relationships and can cause widespread harm to unrelated parties.

Those unfortunate consequences are, in themselves, serious enough to merit painstaking efforts to untangle red tape. What makes red tape worth urgent attention, however, is the pretext and cover it can provide for corrupt practices.

II.C. CORRUPTION

II.C.1. Relation of Red Tape to Petty Corruption

Red tape can provide a fertile ground for arbitrary interpretations of the rules by public officials who in turn may offer to negotiate the nature of their interpretation for a “fee.” In such cases, meeting administrative requirements becomes the equivalent of going through a number of toll gates where bribes or favors have to be paid or proffered, and public officials obtain personal benefits in exchange for processing documents, in effect transforming their jobs into profit-making enterprises. The many colorful names for bribes, such as “dash” in Nigeria, “baksheesh” in the Middle East, and “grease” in vernacular English, testify to the fact that the practice is not limited to one country or one region of the globe.

Economists describe such behavior as “rent-extracting,” whereby an individual obtains income, or “rent,” not from any productive initiative or ability but from the power invested in that individual’s position to grant or not grant a service. Rent-seeking in this context constitutes “petty corruption,” and is generally the province of lower- and middle-level officials.

Red tape creates an environment in which rent-seeking can be particularly profitable. The existence of widespread petty corruption in day-to-day government administration should be taken as a warning sign of the possible existence of corrupt practices at work in other areas and levels of public service.

II.C.2. “Grand” Corruption and the Criminal State

Corruption can destroy economies, political systems, and, ultimately, the state itself. Its effects can be so profound and irreversible that identifying and controlling corruption should be top priorities for all countries.

Corruption is a gradual process. Like a malignant disease, it starts at one point and, if unchecked, spreads through the body, often slowly at first and then at an accelerated pace, until it succeeds in destroying the whole. Like a disease, it may manifest itself in symptoms. Like a disease, if caught in time, it can be treated and, if not cured, controlled.

While one can quibble over definitions, terminology, and precise proofs, experience demonstrates that, if unchecked, corruption leads to the progressive subordination of the government apparatus to the personal interests of public officials and, thus, the progressive personalization of the state. The accompanying increased discretion

invites officials to "develop business" in areas beyond their government functions, including criminal activities directly affecting other states, such as smuggling.

Whether the malignancy originates in the lower, middle, or upper ranks of the bureaucracy, or with the ruler himself, corrupt actions and influences become mutually supporting among levels of authority and across sectors, creating a system impenetrable to accountability and impervious to public pressure.

At lower levels, petty corruption results in waste of public resources through administrative inefficiency, dysfunction, and small-time official larceny. At higher levels, officials transfer to themselves vast sums of public money from mineral resources, the sale of state assets, and international loans and aid.

This personal expropriation of public wealth, called "grand corruption," is a powerful force distorting government and business. With their ill-gotten public wealth, officials fill accounts in foreign banks and invest in assets and activities which are not only unproductive but flagrantly profligate. If still unsatisfied, they may take advantage of other "deals" offered by criminal elements who, perceiving the extreme lack of public or outside accountability, view the country as a comfortable base of operations or a link in their illicit business networks.

In the worst case scenario, the top authority can ultimately grow to exercise complete control. The country becomes his private estate; the public treasury, no more than his personal fund. The state becomes personalized at all levels, indistinguishable from its ruler. All of society and the economy become subject to his personal whim and, in their dealings with the country, everyone -- citizens, public officials, businesses, other countries, and international agencies -- must refer to him in his individual capacity. Legitimate business flees, all state services break down, productive activity comes to a halt, and the treasury is depleted. The ruler then turns to criminal elements for the resources to finance his activities. If they don't already control him and his territory, they soon will. Having progressed far beyond the influence of grand corruption, the state itself becomes criminalized. At some point, the criminal Humpty-Dumpty state is pushed off its wall by its ruler's death or by coup or revolution. Try as they might, all the efforts of the world are not enough to put the pieces together again. Anarchy, vigilantes, and competing warlords reign in the former state, separated from the rest of the world by a porous barrier through which, with the exception of a few traumatized and bereft refugees, only terrorists, drug merchants, and arms smugglers dare pass, carrying with them fear and poison to the world outside.

Extreme and alarming, but not exaggerated, fictional or futuristic, these are the effects of corruption lived daily by millions of people.

II.C.3. Causes of Corruption

II.C.3.i. The Traditional Approach

Analysis of corruption and its causes has traditionally focused on incentives to individual participants. Unfortunately, the resulting explanations of why corrupt practices develop have proved flawed or are riddled with exceptions. Examples include:

- “The search by businessmen for the least-cost alternative to existing rules and regulations provides a temptation and an opportunity to civil servants.” This argument does not explain why corrupt practices are far more widespread in some countries than in others with the same income profile. Nor does it explain why some countries have established anti-corruption institutions while others have not. Furthermore, new research has determined that bribe-giving by businessmen does not, as a rule, yield lower costs.
- “The low pay of civil servants provides a fertile ground for demands for bribes.” Again, this argument runs counter to the fact that, when compared on a country-by-country basis, equivalent pay scales do not necessarily correlate with levels of corruption. In many countries civil servants, even with their low pay, have incomes significantly higher than those of most of the population and, in addition, benefit from greater income stability and job security. If pay levels are a factor, the issue becomes the amount of pay increase necessary to eliminate the temptation of corrupt activities. This issue is particularly relevant given the practice in some countries of purchasing civil service positions for the equivalent of several months' wages.
- “Lack of capacity in the civil service increases the potential for differing and conflicting interpretations of rules and regulations, and leads to the use of bribes to resolve those conflicts.” This argument does not explain why the most capable civil servants are not assigned to the most important or troublesome areas of administration. Nor does it explain the resistance to efforts to clarify procedures in manuals and on posters that is often encountered even when donor financial assistance is available.
- “Although immoral, corruption serves development by fostering national capital accumulation and the creation of a national bourgeoisie.” Contrary to logic and impartial evidence, this argument is a cynical and self-serving justification for continuing corrupt practices that benefit no one but the practitioners. First, distortions in investment decisions resulting from corruption slow progress toward creating adequate infrastructure for sustained development. Second, accumulation of capital by an “emerging bourgeoisie” on the basis of rent-seeking activities does not necessarily lead to the establishment of sound business practices for the future. It is far more likely that the “emerging bourgeoisie” will keep on taking advantage of their privileged positions, now reinforced by wealth, to extend their rent-seeking activities.

It is true that some businesspersons will devise detours around rules and procedures; that better pay for civil servants may reduce levels of temptation for bribe-taking; and, that unclear rules and regulations and lack of official capacity foster arbitrariness and the grounds for self-interested interpretation. The conceptual substance of the traditional approach remains weak, however, as it fails to explain why widely differing outcomes can result under similar conditions.

II.C.3.ii. The Systemic Approach

A relatively new line of research addresses the issue of corruption by looking at strategic interactions among the actors. One such paper¹ provides a particularly relevant framework for analyzing the situation in Mozambique. The model used examines the interactions of self-interested agents in a two-tier government hierarchy consisting of a central authority and bureaucrats who engage in a two-stage game affecting private sector activities. The paper poses the following questions:

- Given that corruption discourages private sector activity and therefore constrains the ability to raise state revenue through taxation, why would a self-interested revenue-maximizing state allow widespread corruption among its agents?
- What accounts for forms and levels of corruption?
- Why does the incidence of corruption vary across otherwise similar countries or even among regions within the same country?

In the two-tier hierarchy, the central authority chooses the policy instruments affecting market activities, which in turn provide its tax base. The authorities' deputies decide how they will deliver the required administrative services. The deputies are assumed to enjoy enough discretion in their jobs to permit misuse for private gain.

The model yields a set of outcomes that fit the patterns of corruption and anticorruption policies in many countries:

- The self-interest of the central authority can induce it to provide incentives to eliminate corruption at the lower level of the hierarchy. Hence, corruption arises when the central authority chooses not to make a commitment against it.
- The decision by the central authority to not commit to fighting corruption is influenced by the costs associated with such an initiative in terms of supervising, monitoring, and providing proper incentives. The calculation rests on the authority's subjective assessment of the present discounted value of current costs versus that of future gains. As the gains will not be realized for several years, the authority may consider them less valuable than the immediate costs it must incur to achieve them.

¹ Dabla-Norris, 2000

- If the central authority itself has a private interest in corrupt activities through, for example, grand corruption, it will be even less willing to commit to fight corruption at other levels. It will see petty corruption as the price of tacit acquiescence by lower-tier bureaucrats to its own corrupt practices.
- Where wages for civil servants are low, and monitoring costly, the central authority may economize on the cost of providing efficiency wages by permitting corrupt practices. In short, civil servants then act under an implicit contract with the central authority. In some circumstances, the central authority may even find it worthwhile to sell civil service positions (tax farming) for the equivalent of several months' or even years' wages as way of sharing some of the illicit gains accruing through them.
- The behavior of any civil servant toward corruption will be directly influenced by his/her co-workers. A high incidence of corruption among civil servants yields a lower probability of penalty and therefore acts as an additional incentive. In practice, it is probable that, in an institution where corrupt practices are widespread, a civil servant unwilling to participate will bear not only the costs of foregone income but also harassment from co-workers, all without any compensating reward for probity.

From these findings, it derives that corruption is not an unavoidable occurrence, predetermined by a cultural or social context, but the result of policy decisions at the highest level. If inaction in dealing with the issue by the central authority rests on their perception of the costs of supervising and monitoring, increasing the short- to medium-term cost of such inaction for the central authority may be a way to create the necessary incentive for the authorities to revise their stance.

II.C.3.iii. Costs of Corruption to Business

The Business Decision Process: A review of the basic elements of investment analysis provides a framework for understanding why corruption adversely affects a country's investment potential. In this context, the review pays particular attention to estimating costs of investment, rather than to projecting potential returns.

A business seeks the highest return at the lowest possible cost and risk. The return is measured as a percentage of the total amount of resources (investment) the business dedicates to an activity. At any particular point in time, the business has only a finite amount of resources available for investment. While there may exist a number of potential activities in which it may invest (investment alternatives), the business is limited by the resources it has available, and so must choose among the alternatives. If the activity chosen produces an amount of money (the return) which, net of costs, is equal to the amount invested, the business will "breakeven", "pay back," or "pay out". If the activity produces more than the invested amount, the return is positive and the business makes a profit.

If, however, the activity produces less than the invested sum, the return is negative and the business suffers a loss. In that case, the business is left with fewer resources than it had invested originally and, thus, fewer resources available for future investments. If its remaining resources are not sufficient to make a new investment, the business may eventually be *out* of business.

In business, therefore, return on investment is a life and death matter. Prior to making an investment decision, a business carefully analyzes the potential activity in an attempt to quantify all possible costs in order to compare them against the amount it must invest to pursue the activity. In this way, business seeks to select investments in which it can avoid losses and maximize gains so that it may survive and grow.

Costs and Risks: When presented with investment alternatives, a business attempts to determine which one will give it the highest return after costs. It therefore must identify and quantify the foreseeable costs, estimate the return, and compare the alternatives. To "cost out" the investment, the business identifies all the elements of the activity and assigns a money value to each. In order to quantify the impact of those elements with as high a degree of certainty as possible, business obtains as much information as it can about their nature, sequence, frequency, and relationship to other factors affecting the activity involved.

In addition to the elements of the activity itself, the business takes into account the possible effects of events, circumstances, and other conditions beyond its knowledge or control which, while not directly concerned with the activity, may have an impact on it. Such elements for which costs cannot be quantified inject uncertainty into the analysis, and constitute "risks" to the investment. These risks include political, financial, and economic risk, and are comprised of numerous components:

- **Political Risk:** (1) government stability; (2) rule of law; (3) corruption; (4) democratic accountability; (5) bureaucratic quality; (6) role of military in politics; (7) socioeconomic conditions; (8) internal conflict; (9) external conflict; (10) religious tensions; (11) ethnic tensions; (12) investment profile in country.
- **Financial Risk:** (1) foreign debt as percentage of GDP; (2) foreign debt service as percentage of exports of goods and services (XGS); (3) current account as percentage of XGS; (4) net liquidity as months of import cover; (5) exchange rate stability.
- **Economic Risk:** (1) GDP per capita; (2) real annual GDP growth; (3) annual inflation rate; (4) budget balance as percentage of GDP; (5) current account balance as percentage of GDP.

A devaluation of currency is a "monetary risk," for instance. Similarly, war, terrorism, civil strife and unrest, and even a peaceful change of government may present "political risks."

The combined risks of investment -- among them financial, economic, monetary, and political risk -- in a particular country constitute its "country risk." Economists create formulas to compare risks in various countries and compile the results in rating tables that are used for investment analysis, insurance, and other purposes. As its perception of risks rises, the business raises the level of potential positive return that it must expect to justify risking its existing resources in the activity. The business will reject the potential investment at the point its anticipated return falls below its "required return on investment."

By subjecting potential activities to this process of investment analysis, the business creates a basis for comparing alternative investment possibilities and identifying the one most likely to produce the highest return at the lowest risk. Competition among businesses for an investment opportunity is a product of this process.

Because levels of return may vary by circumstance, location, and other conditions, business will be willing to invest, and may in fact have to compete with other businesses, where costs can be quantified with confidence and perceived risks from unrelated events are low. In order to secure the opportunity, it will have to offer the lowest rate of return. To the extent unquantifiable costs or risks are present, however, business will require a higher return to induce it to invest, and will therefore charge a higher rate of return. At some point the required return becomes so high, its achievement potential so low, and, hence, the risk of loss so high, that nothing will induce the business to invest, and it will seek alternative investments. In such cases, there will be little or no competition among businesses for the opportunity and, perhaps, *no* business will even be willing to pursue the activity.

Higher Costs, Higher Return Requirements: Rent-seekers extract payments by discriminating in enforcement between members of the public who are willing to pay rent and those who are not. Businesspeople who pay tolls to open bureaucratic gates may feel they are actually saving costs by "facilitating" the process. In other words, they may believe that "grease," although unethical, decreases the cost of doing business and, as a consequence, is economically efficient. Recent studies have, however, debunked grease as an efficiency factor. One², based on two international business surveys, indicates that, even after taking into account the "gripe" factor among respondents, firms that pay more in bribes are also likely "to spend more, not less, management time with bureaucrats in negotiating regulations" and also face a higher cost of capital. Although counterintuitive, the finding reflects the fact that a

² Kaufman and Wei, 2000

business amenable to demands for bribes will be subject to additional bureaucratic pressures. Consequently, even those who do pay may find next time they approach the gate that the toll has gone up.

Thus, businesses cannot expect reduced costs or certainty where corruption is present. To the contrary, they can expect that rent demanded and the delays, inconveniences, and other obstacles created by often unpredictable requirements imposed by rent-seeking officials will result in additional and usually unquantifiable costs and risks. Accordingly, businesses must raise their required return on investment in order to compensate for the additional costs and risks.

Alternatively, or in addition to requiring higher returns, businesses may limit their risks by restricting the term of their investments, in effect accelerating the "payback period." In jurisdictions where investment risks are high, businesses may decide to invest in very short-term activities, such as brokerage for a fee, but reject all longer-term commitments. Angola, for instance, is off-limits for most investors, but some businesses may find it attractive to broker deals for high front-end commissions. Finally, a business which refuses to pay tolls may decline to do business at all, thus reducing potential investment in the country or in a particular sector.

Deviation from Acceptable Standards: A business can avoid paying tolls by ignoring troublesome procedures, even if legitimate, and conduct its activities, or some of them, "informally." In these cases, a more subtle effect of petty corruption can come into play. In addition to creating costs and risks, corruption has encouraged avoidance of legitimate requirements, not only reducing tax revenue and eliminating government oversight but also depriving business and the community at large of evidence of compliance with acceptable standards. Uncertainty and inequality of standards makes fair competition impossible, and can result in inferior goods and services and further increased costs.

Finally, where grand corruption is common, standards are completely absent. Costs become wildly unpredictable. The corruption taints not only economic efficiency, but also political life and society at large, setting the stage for civil unrest. "Country risk" soars. Investors refuse to risk their resources, short or long-term; they in fact *disinvest*, fleeing the country.

II.C.3.iv. Economic Costs of Corruption

By introducing discrimination among businesses, corruption tends to weaken competition, thereby tending to lessen economic efficiency. The economic costs of corruption may derive from sub-optimal public infrastructure investments, lower quality or quantity of public goods and services, and reduced tax and duty receipts. Further, as discussed above, corruption discourages private investment by creating additional costs and risks.

That said, since corruption, even if widespread, is illegal, it is very difficult to identify, assess, and quantify its costs to a particular country's economy. Despite the inherent difficulty, however, in recent years a number of international studies have attempted to assess the burden corruption places on economic life.

Public Investment: Research³ indicates that corruption in the public investment decision-making process skews investment decisions toward those promising the highest probability for personal gains by the decision-makers, and thus may result in decisions that are not optimal from an economic efficiency point of view. A study⁴ presented at the 1997 Congress of the International Institute of Public Finance concluded that, by distorting the entire decision-making process in public investment projects, corruption, particularly grand corruption, results in:

- Higher levels of public investment. Decisions regarding public investment become driven not by the consideration of the comparative economic efficiency of different investments, but by the amount of graft that can be extracted, proportional to the cost of the investment project.
- Investments that are not optimal and therefore have a lower productivity. For instance, despite its lower near-term returns, a costly hydroelectric plant to supply electricity to meet levels of demand not projected for years to come may be chosen over other investments with higher returns because it involves greater opportunities for graft.
- Lower quality of public infrastructure. Companies under contract may try to recoup the cost of graft by economizing on quality and quantity of materials (e.g., by putting more sand in the concrete mix).
- Lower public expenditures on operations and maintenance, which do not present prime vehicles for graft. These lower expenditures on operations and maintenance (especially if the initial quality of the realized investment was sub-standard) in turn lead to faster wear, creating the need for faster replacement and, with it, more lucrative opportunities for procurement graft.

Corruption in public investment decisions may not affect growth in the short term, and may even contribute to immediate faster growth through the increased volume of spending in country. Ultimately, however, it negatively impacts prospects for long-term growth as the infrastructure will have cost more and, in any event, may not be appropriate to the country's needs.

Quality and Quantity of Public Goods and Services: Corruption has the effect of lowering the quality and quantity of public goods and services:

³ *Tanzi and Prakash, 2000*

⁴ *Tanzi and Davoodi, 1997*

- Services and goods provided by public entities may be of lower quality, or may be delivered in lesser quantities, because a portion of funds allocated for their provision finds its way into the pockets of government officials. For instance, potholes in roads may be patched with dirt, then covered over with a thin layer of asphalt, or supplies reaching schools and hospitals may be fewer and very much below the (already low) quality and quantity standards on which the allocation had been calculated.
- To recoup the cost of graft, private companies face the option of either increasing the costs, or lowering the quality, of units sold. In either case, the provision of services will suffer in performance or availability, or both. Since the public administration responsible for control has participated in causing the problems, it will not be inclined to point out these deficiencies.

Tax and Duties Collection: Absent effective internal controls, customs and fiscal agents can artificially increase the amount owed by an importer or a taxpayer. While executing their collection and enforcement powers, they can suggest that a much lower payment may result if the importer or the taxpayer enters into a “deal” with the agents personally. The importer or taxpayer will be willing to consider the offer if the total of the payment to be made (tax or duty plus bribe) does not exceed the legitimate amount owed. Thus, the amount of taxes or duties will tend to be lower by at least the amount of the bribes extracted.

Since the collection of duties and taxes becomes no longer based on legal obligations but on a negotiated settlement between the public agents and private citizens and companies, there are few boundaries to the outcome. A slight increase in the level of the bribe may substantially reduce the tax or duty actually collected. In that case, the amount paid by the importer or the taxpayer (payment toward tax or duty plus bribe) may be well below the legitimate amount due, with a consequent further loss of tax revenues.

Private Investment: Since neither party to a corrupt transaction is generally willing to admit the amount of graft paid or received, the cost of corruption must be inferred from partial information and indirect data. Some recent studies have begun to cast light on the actual economic impact of corruption on private investment:

- A study on Georgia in the late 1990s⁵ suggested that corruption in the country added between 7% and 15% to costs of investment.
- A cross-country study⁶ has estimated that a doubling of the Corruption Perception Index is equivalent to a 20% increase in the marginal tax rate. The

⁵ Drabek and Paynes, 2001.

⁶ Wei, 1997.

same study suggests that a 1% increase in the marginal tax rate leads to a 5% reduction in foreign direct investment (FDI).

- A third study⁷ concluded that an increase in perceived corruption by only one point on an indexed scale of 0 to 6 decreases GDP growth by 0.84%.

⁷ Johnson, Kaufmann and Zoido-Lobaton, 1998

III. RED TAPE AND CORRUPTION IN MOZAMBIQUE

III.A. BRIEF DESCRIPTION OF MOZAMBIQUE

In the 1980s, Mozambique was torn by a civil war between its FRELIMO and RENAMO factions. Peace came in 1992, followed in 1993 by democratic elections from which FRELIMO emerged as the winner and formed a government. With massive external aid over the last decade, Mozambique has managed to create a framework for democratic government and to undergo a reconstruction and development program sponsored by the World Bank and international donor agencies. It instituted measures to liberalize the economy, privatize state-owned enterprises, and revitalize Mozambique's key regional transport system.

In 2002, Mozambique can boast of a decade of national peace, accompanied by an average annual GDP growth of 6.5%, which, albeit from a small base and influenced by a few major investments, constituted a superior achievement for an African country in the 1990s. Despite its recent progress, most economic and social measures, including a \$230 per capita GDP, 70% donor aid financing of public investment, approximate 75% illiteracy rate, and 14.5% estimated prevalence of HIV/AIDS, place Mozambique among the least developed of the world's nations. Nonetheless, with its governmental and economic record since 1992, Mozambique stands out in a continent marked by declining economies and increasing poverty, civil strife, war, and disintegrating states.

Now, however, that record may be at risk. As it approaches its second national elections, scheduled for 2004, Mozambique shows disturbing signs of dysfunction in day-to-day government processes, as indicated by widespread popular perceptions of ineffective administration and enforcement of civil and criminal laws, and of abuse of office and corruption on the part of public officials. New construction, ostentatious displays of wealth, and absence of accountability fan rumors of traffic in contraband and embezzlement of the treasury.

III.B. RED TAPE IN MOZAMBIQUE

III.B.1. Evidence of Red Tape

As described above, excessive government administration requirements, sometimes called "red tape," add costs to doing business. More importantly, red tape can in some contexts provide a pretext and a ready tool for petty official corruption. Ample evidence in Mozambique demonstrates not only that red tape burdens investment, but also, as will be detailed below, that petty corruption is the norm.

In 1996, Mozambique embarked on an effort to reduce administrative barriers to investment. In the following four years, the Government of Mozambique (GOM)

instituted a series of laws and decrees regarding business activities in general and licensing and taxation in particular.

In 2001, in an effort financed primarily by USAID, the International Finance Corporation's Foreign Investment Advisory Service (FIAS) reviewed the implementation and effect of the 1996 regulatory scheme. Its report, Mozambique: Continuing to Remove Administrative Barriers to Investment, concluded that, while there had been progress since 1996, reforms were insufficient and, more seriously, key reforms had not been actually adopted and implemented. While tactful, the report made clear that the GOM had fallen far short of its overall goals of facilitating investment and conforming Mozambique's systems to international practices.

The FIAS report charted the improvements under the post-1996 reforms, and the continued concerns of investors as of mid-2001. It highlighted "political will" as a prerequisite to further action, suggested a general strategy to address these concerns, and outlined specific objectives and a staged plan of action for additional reform in eight areas (access to land, import procedures, employment of expatriates, labor, industrial licensing, tourism licensing, business registration, and inspection). For detailed descriptions of requirements and their dysfunction in specific areas, see *Exhibit 2* (a report by the Mozambican consulting firm SAL Consultaria e Investimentos, Lda., on the steps required to register a business) and *Exhibit 3* (illustrative case studies of red tape involved in the employment of expatriates and in industrial licensing).

To the extent that this assessment touched on the specific matters addressed by the FIAS report, a very limited survey of the Maputo business community confirmed the report's information and conclusions, now more than a year old. Despite efforts to identify problems and initiate corrective efforts, there has been little actual progress in resolving even the main issues, a fact which may indicate weak capacity and/or insufficient political commitment.

III.B.2. Business Perceptions of Red Tape

Regarding the effect of red tape on business activities and how to address the problem of red tape, the persons interviewed by the assessment team were highly consistent in their views. Due, however, to the small number of interviewees; their obvious success and sophistication; and the informal and unstructured nature of the conversations, those views may not necessarily represent a majority opinion in the business community. Despite that caveat, as all interviewees were active members of business associations, this assessment places significant weight on their perceptions as representative of the private will for effective change.

The interviewees share the views that:

- Administrative rules and procedures are not perfect, but they have improved since the post-1996 reforms.
- Red tape and attendant petty corruption impede business activity.
- Problems due to flawed and corrupt implementation are greater than those presented by the requirements themselves.

According to the interviewees, in many cases the major problems stem from inequality and uncertainties in administrative implementation. For that reason, efforts to address the problem of red tape should not necessarily focus on changing regulations, but rather on standardizing and improving enforcement of the existing regulations. Such improved enforcement would provide a basis for fair competition (in customs procedures, for instance) and would fulfill the underlying purpose of the regulations (for instance, in rules regarding employment of expatriates, which exist to attract qualified, capacitated persons, not just anyone who wishes to live in Mozambique).

Interviewees also believe that some portion of the complaints about the system are invalid, claiming that some businesspeople have adopted administrative unfairness and dysfunction as an excuse or justification for their own shortcomings, failures, or limited investment objectives. According to the interviewees, these persons:

- Do not take the time and trouble to inform themselves on how to comply with requirements;
- Are unwilling to pay fees to competent consulting firms to assist in the process; or,
- Are less interested in long term investments in than in quick deals for fast returns.

All interviewees believe that petty corruption in administrative implementation is widespread. However, all also claimed that they refuse overtures, have developed strategies to avoid paying bribes, and are able to comply with requirements without suborning officials. One mentioned that he might provide a nominal favor (for instance, money for a coffee), but no more.

More than half of the interviewees indicated that, when resistance is encountered at lower and middle levels, they are able to refer the problem up the line, usually directly to the Minister himself, who quickly resolves the problem. These interviewees feel that some government officials at higher levels understand the problems and are allies for business in the effort to improve the system. While that perception may be warranted, it may be unduly influenced by the ease of access that these respondents have at the highest levels. In any case, the practice of referring lower and middle-level administrative matters directly to the Minister in itself illustrates the dysfunction of the current system.

III.B.3. The Current Framework to Address Red Tape

Most of the persons in the Maputo business community that were interviewed by the assessment team are active in the Confederation of Mozambique Business Associations (CTA), an umbrella organization for business associations. The information on CTA provided in this report was obtained through those interviews and has not been verified by independent research.

CTA developed from a technical committee formed in the 1990s, in connection with discussions between the business sector and the government during Mozambique's structural reform period. Although not completely new, it is still in a work in progress. Part of its current mission is to provide the framework, forums, and leadership for removing administrative barriers to business activity. The effort is mapped out on a matrix of tasks, goals, and players. Divided into working groups representing areas of business activity and regulation, such as customs, tourism, and labor, CTA representatives organize meetings with their counterparts in the appropriate ministries to discuss issues. In addition to the sector-specific groups, an inter-ministerial committee, headed by the Minister of Industry and Commerce, meets occasionally on cross-sectoral matters.

According to various interviewees, some of the working groups are functioning well and have served to introduce government officials and representatives of the business community, to convey business community concerns to the government officials, and to initiate constructive dialogue. The technical committee and the working groups are vehicles for articulating the issues, for engaging the players on details specific enough to lend themselves to practical solution, and for testing political and private will to change and improve the business and investment environment.

In short, the persons interviewed felt that the current institutional framework for communication and coordination is functioning, and will be progressively more useful in addressing issues of concern to business.

III.B.4. Specific Priority Concerns Regarding Red Tape

According to the interviewees, **import processing** and **employment of expatriates** are priority areas for improvement in implementation and enforcement:

- Some persons highlighted abuses in customs procedures, where expenses of delay and FRIGO's monopoly of holding and clearing facilities creates particularly high costs, in demurrage, storage and handling fees, transport costs, and lost sales, for importers who refuse to pay bribes.
- Employment of expatriates was the most common area of complaint from foreign as well as Mozambican businesspersons. Interviewees stressed the need for outside expertise at all levels of business. Official actions in these cases are by their very nature more personal than others and lend themselves to colorful step-

by-step accounts of officials' ploys. For instance, an interviewee discussed his experience when applying for a follow-on permit granting continued residence for 10 years. The official responsible for processing the application delayed action until after the application period had expired, thereby creating opportunities for additional personal compensation to remedy the lapse and to restate the permit. Another person recounted how a rent-seeking lower official appeared at his office to extract a bribe almost simultaneously with the delivery of the approval from a higher-level official. The interviewee remarked that the coincidence showed that the opportunity to exact the bribe had somehow been communicated to the lesser official.

Despite special reference in the Scope of Work for this assessment to **overlapping requirements by different jurisdictions** (central, provincial, and municipal, none of the interviewees mentioned that aspect of administration. Conflicting interpretations or differences in the regulations themselves may be more troublesome in the provinces, however, as indicated by the FIAS report, which devotes a brief section to the problem. While some comments, reviewed below, dealt specifically with the Centro de Promocao de Investimentos (CPI), they did not relate to jurisdictional issues.

The "**one-stop-shop**" received some comment, but although respondents had the impression that it was a good idea, they offered no insights or recommendations derived from their own experiences.

One interviewee referred to **duplicative inspections by separate agencies** (for instance, health and labor) conducted merely as a pretext for shake-downs, particularly of restaurant businesses. Again, however, those abuses were not the specific priority concerns of the persons interviewed.

Persons interviewed expressed concern not just about petty corruption, but also about the **GOM's failure to actively promote investment** within the current framework. In particular, CPI allegedly fails to apply even basic salesmanship in its efforts, adopting in its stead a disinterested, clerical approach. Aside from promotional attitudes, according to certain interviewees, statutory incentives for investment in Mozambique compare poorly with those of other countries in southern Africa and elsewhere. According to these persons, Mozambique's current investment incentive program falls far short of offering the financial advantages necessary to woo foreign investors and, worse, demonstrates little of the interest, motivation, energy, and creativity applied to the task by next-door neighbors Lesotho, Swaziland and Botswana.

Regarding **improvements in the system**, the overall consensus of the interviewees supports an approach which:

- Is practical and business-led;
- Is time-conscious;
- Recognizes that perfection is not achievable but strongly advocates discrete improvements;
- Rejects ambitious reforms, instead targeting specific priority concerns in a strategic, phased fashion;
- Uses the business associations, particularly CTA, to develop positions and lobby government for change on administrative requirements, as well as on other issues of interest to business; and,
- Encourages government to develop better tools, methods, and attitudes to promote investment in the country.

III.C. CORRUPTION IN MOZAMBIQUE

III.C.1. Petty Corruption

In 2001, Etica Mocambique published a "Study on Corruption" undertaken by Afrisurvey and financed by USAID, which documented public attitudes toward and experience with corruption. The survey's questions dealt not only with perceptions of corruption, but also with the respondents' actual exposure to requests for bribes in the course of everyday activities.

The study paints a grim picture of pervasive petty corruption. A strikingly high proportion (81%) of the population, across age, location, and sex groups, believes that government officials in positions of regular contact with citizens (police, clerks, judges, customs officials, and even journalists) extract bribes or other favors in connection with their duties. Significant percentages of respondents stated that they had been recent victims of petty corruption or of crime (respectively, 22.6% in the preceding six months, and 41% in the previous year). "Petty" is a relative term, as over 20% of victims allegedly paid between 20% and 100% of the per capital GDP.

Even more sobering for the long term, a significant majority of respondents believed that many, or even a majority of, government and court officials were involved in corruption and that there would be less corruption if violent penalties, such as cutting off hands, burning, and execution, were meted out. Significant minorities felt that there would be less or much less corruption in a one-party system.

The businesspeople interviewed by the assessment team perceived a high level of petty corruption in government administration as it affects business and commerce. At some variance with the impressions reported by Etica Mocambique, however, the businesspeople interviewed appeared, on the whole, optimistic about their ability to effect change within the recently established framework for dialogue with specific government officials.

Notwithstanding that "can-do" mentality, so characteristic of businesspeople irrespective of location or nationality, the broader popular perception regarding corruption can have a profound effect on business activity, far outweighing constructive efforts to combat corrupt practices in areas particularly important to trade and investment. Unless segregated officially and physically, as in special enclaves or zones, the business sector operates in the construct of society at large, and depends on the local infrastructure, social services, and law enforcement. Therefore, investors in Mozambique must also take into account how business is affected by government administration in other sectors. For instance, business must be concerned with the education, health, and welfare of current and future employees, and with their confidence in the political system and societal order. It is from information in those areas, which Etica Mocambique explored, that business develops its assessment of political and overall country risk, the costs of which cannot be accurately predicted but are often catastrophic.

III.C.2. Grand Corruption

During the last few years, Mozambique has acquired an unsavory reputation as a country rife with corruption. This general perception has been reported by various surveys, most notably, Transparency International's yearly Corruption Perception Index which, in 2000, rated the country 80th out of 90 countries. During the period that the assessment team was in Mozambique, *The Economist* spread the news to a much wider audience. With its inimitable knack of getting right to the point, it titled its short piece: "Maputo's ten years of peace: Booming, if a little dirty" (October 5 through 11, 2002, p. 43).

In 1998, Mozambique instituted a law dealing with conflicts of interest issues at high government levels. This law prohibits officials' involvement in remunerative business activities within their areas of responsibility and requires disclosure of net worth, income sources, and specific potential conflicts of interest. "Disclosure" is not public, however. The Prime Minister must disclose only to the President; other high-level officials, only to the Prime Minister. This law has been ineffective in informing or otherwise documenting corrupt activities.

In Mozambique's case, as in all cases of corruption, arriving at a conclusion is less difficult than producing specific evidence. Corruption is hard to prove; grand corruption is even harder to prove, and harder to address, than the petty variety. When grand corruption becomes apparent, it is already entrenched and protected throughout by those forming its net, and the potential rewards and penalties have escalated. Corruption, having in effect become part of or entirely taken over the system, is beyond proof or quantification. It has destroyed the accountability controls of the state, and those who could bear witness have too much at stake to take part in the remedy.

Although perception does not always square with reality, many factors point to widespread grand corruption in Mozambique. The Etica Mocambique survey; alleged official involvement in the Banco Austral scandal and the related murders of an investigative journalist and a newly-appointed bank executive; suspiciously lucrative “sweetheart deals” such as FRIGO's; huge homes of government officials; and rumors of large gaps in government accounts give substantial support to the belief that grand corruption, as well as the petty sort, is as serious as perception rates it.

As discussed above, all corruption distorts the competitive system, but grand corruption destroys it because it eliminates the rules of the game. Costs become completely unpredictable, and risks of total loss of investment soar. If a country possesses resources of intense interest to the developed world, such as rare minerals or petroleum, investors will continue to find it worth their while to do business there. They will, however, seek to isolate their activities both from the pressure of government graft and from interaction in the wider economy of the country, in order to minimize exposure to the desperation, crime, petty corruption, and civil unrest that grand corruption helps to create in society at large.

For better or worse, Mozambique has no fabulous wealth to entice investment which, if well managed and controlled, might serve to finance development and growth. Foreign investment must therefore be based not on uniquely valuable or scarce resources but on favorable conditions for business -- conditions which cannot exist in a deeply corrupt environment.

The extent and specific causes of grand corruption in Mozambique are subjects beyond this report's purview, which is the cost to business and investment of the phenomenon of corruption. Suffice it to repeat that knowing that the state itself can collapse under the weight of corruption, legitimate business, especially foreign investors who have alternative possibilities, will take serious note of any evidence, perception, or suspicion of large-scale misuse of public funds for private gain. It therefore behooves Mozambique to confront, and energetically address, corruption in government.

III.D. ILLUSTRATIVE ESTIMATE OF THE COST OF CORRUPTION

The impact of corruption on foreign direct investment (FDI) will be manifested through both the decrease in effective FDI due to the diversion of some of the funds to pay for graft, and the foregone FDI from investors who will not realize investments in the country due to the existence of corrupt practices.

In the context of this assessment, it is impossible to quantify the actual impact of corruption on investment and growth in Mozambique. However, an illustrative case

can be built using the range of estimated costs from studies referenced above. A WTO study on the impact of transparency on FDI⁸ showed that firms in Latvia and Albania estimated that bribes accounted for 7% of their revenue in the mid-1990s. Even worse, Georgian businesses estimated that bribes accounted for 15% of their revenue in the same period. The assessment team calculated “effective FDI” by subtracting 7% and 15%, respectively, from the total recorded FDI. Furthermore, as noted above, a study by Harvard University economist Shang-Jin Wei on the impact of corruption on investment flows in the early 1990s estimated that a one percentage point increase in the marginal tax rate reduces inward FDI by about five percent.⁹ The assessment team decided to consider one percentage point of revenue paid in bribes to be equivalent to a one percentage point increase in the marginal tax rate. In short, paying 7% of revenues as bribes would have an effect comparable to a 7% increase in the marginal tax rate, which would reduce inward FDI by up to 35%. Likewise, paying 15% of revenues as bribes would have an effect comparable to a 15% increase in the marginal tax rate, which would reduce inward FDI by up to 75%. Using a conservative estimate, whereby loss from foregone FDI is estimated to be only 35% and 75%, respectively, of recorded FDI, rather than of potential FDI, the results are still striking.

First, under the low case (bribes totaling 7% of revenues in Albania and Latvia), realized effective FDI would represent only 68.9% of the potential FDI while, under the high case (bribes totaling 15% of revenues in Georgia), realized FDI would represent less than half of potential FDI.

Mozambique: Illustrative Case on Impact of Corruption on FDI, Table 1

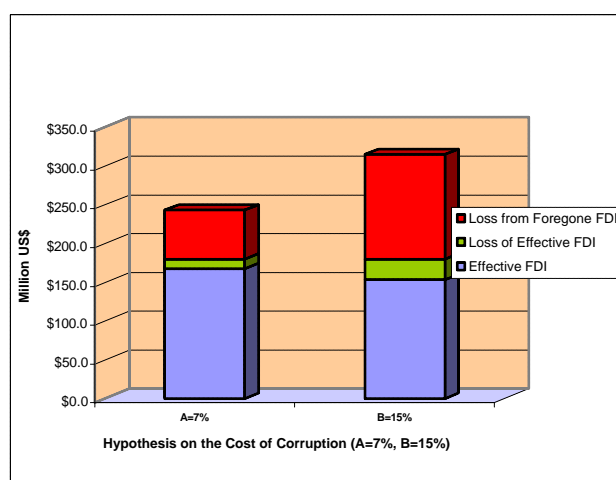
FDI (Millions of USD)	Estimated for 2001		Share of Total Potential FDI	
	7% Revenue Paid in Bribes	15% Revenue Paid in Bribes	7% Revenue Paid in Bribes	15% Revenue Paid in Bribes
Effective FDI	\$169.7	\$155.1	68.9%	48.6%
Loss of Effective FDI Due to Bribes Paid	\$12.8	\$27.4	5.2%	8.6%
Recorded FDI	\$182.5	\$182.5	74.1%	57.1%
Loss from Foregone FDI	\$63.9	\$136.9	25.9%	42.9%
Potential FDI	\$246.4	\$319.4	100.0%	100.0%

⁸ Drabek and Payne, 2001.

⁹ Wei, 1997.

In this example, instead of US \$182.5 million, the figure for 2001 FDI in Mozambique could have ranged from US\$ 246.4 million (in the case of 7% of revenue paid in bribes, or scenario “A” below) to US\$ 319.4 million (in the case of 15% of revenue paid in bribes, or scenario “B” below). As investment (and effective investment in particular) and growth are closely linked, the inescapable conclusion is that GDP growth in Mozambique remains below its potential because of corruption.

Mozambique: Illustrative Case on Impact of Corruption on FDI, Table 1



Two important points have to be made:

- It can be argued that the estimates of the cost of corruption used in this calculation are exaggerated and therefore not representative of the actual situation in Mozambique. Nevertheless, the magnitude of the impact indicated in the illustrative case clearly suggests that, whatever the actual cost of corruption in the country, the impact on investment and growth is significant.
- The example used focuses on foreign direct investment. The available data did not allow a similar calculation with reference to private productive investments by nationals, but a similar impact on domestic investment levels can be expected, further limiting GDP growth below its potential.

IV. ADDRESSING RED TAPE AND CORRUPTION IN MOZAMBIQUE

IV.A. STRATEGY AND OVERALL OBJECTIVES

In Mozambique, successful and lasting resolution of the issues of red tape and corruption will depend in the long run on profound public administration and management reform that establishes modern regulations and merit-based systems for appointment, promotion, and performance evaluation. Such an outcome can be achieved only through a long-term, sustained effort.

Such a systemic revision may be the subject of a future World Bank project in Mozambique. In the meantime, a number of targeted actions can prod and accelerate the reform process by developing examples of national best practices and creating confidence and solidarity in remedial efforts, thereby directly contributing to increased growth and reduced poverty in the short- to medium-term.

The first line of action should target the elimination of opportunities for arbitrary decisions by civil servants in procedures concerning economic activities, which includes the reduction of red tape. The second line should target pervasive corruption in the country. The nature of the actions in this latter area will depend largely on both perceived and demonstrated commitment by the highest authorities to effective reform.

Although this assessment deals with red tape and corruption separately, many of the suggested approaches in one area, if implemented, will tend to support progress and sustainability in the other.

IV.B. PRINCIPLES FOR INTERVENTION

IV.B.1. Overarching Principle: Transparency

This assessment suggests that a broad-based approach under the overarching principle of **transparency** in government administration is required. Adopting transparency as the unifying theme and driving force behind the fight against corruption would serve to increase the effectiveness of the strategy within and across activities and sectors. The concept of transparency is relevant to most areas of human endeavor, particularly to the maintenance of democratic and competitive economic systems. The flexibility transparency permits through dissemination of information and opinion creates, and arms, the political and private will required to meet the challenge of reducing corruption.

For instance, the key issue with red tape is often not that some of the procedures may be wasteful or that some of the paperwork may be overly cumbersome, but that it is difficult to know exactly what is required for a specific step, how long a delay is necessary, or what the reasons for a rejection of paperwork may be. As discussed, this opacity in the functioning of the administration vis-a-vis those it is supposed to

serve provides a means by which public officials can extract personal benefits from their position. Corruption thrives when the public is prevented from having any knowledge about the workings of the administration.

The key objective of the strategy to address the issues of red tape and corruption in Mozambique should then be to increase the transparency of the operations of public administration. Increased transparency is a necessary condition to fight against corruption. It will not only tend to limit corrupt practices, but will also help identify cases where corruption may have been a factor in decision-making and allow for the effective prosecution of the guilty. Only transparency can give the necessary popular credibility to anti-corruption initiatives undertaken by the public administration and assure that those initiatives are effective.

IV.B.2. Implementation Principles: Selectivity, Simplicity, Synergy, Stop-Loss

This assessment suggests that an effective approach to interventions to reduce adverse effects of red tape and corruption in Mozambique should meet the tests of

- **Selectivity** -- targeting resources to areas of highest impact and demonstration effect;
- **Simplicity** -- setting objectives that are easily articulated and realistically achievable;
- **Synergy** -- ensuring that various programs and activities have the effect of mutual-reinforcement; and;
- **Stop-loss** -- establishing clear conditions for continued support and being ready to discontinue support if those conditions are not met or if progress does not warrant it.

IV.C. ADDRESSING RED TAPE

Red tape adversely affects business activities in variety of ways, all with negative implications for business prospects and, in the wider picture, for business's ability to provide employment and income generation opportunities and to pay taxes to finance government services. Red tape thus affects the economic outlook and well-being not only of the business community but of the population at large. It follows that, by initially concentrating on procedures that directly impact business, reform efforts will in fact address crucial issues in the fight for reduction of poverty.

For reformers and their supporters to obtain the maximum "return" on their investments in interventions to reduce the effects of red tape, they should **select** and prioritize areas for intervention according to a combination of the probability of success, based on the attitude of the head of the agency or institution and its staff; and the expected magnitude of impact, on business activities in particular. Specific interventions within a selected area should be **simple** enough in substance and form to be easily understood by all. Successful intervention within one area of an agency

or institution will create **synergy** to encourage sustainability and new accomplishments in the same or other areas and in other agencies. To realistically permit near-term success, initial objectives should be modest, but **stop-loss** conditionality should be considered should those objectives not be met.

To meet those criteria, near-term interventions should:

- Not attempt wholesale change of existing administrative requirements, but instead address specific defects;
- Concentrate on eliminating arbitrariness in priority areas; and,
- Be progressive in nature -- one step should lead to another.

IV.C.1. A Step-by-Step Approach to Maximize Success and Impact of Intervention

A strategy to reduce red tape by promoting and instituting transparency in administrative requirements should adopt a step-by-step approach and should build on the foundation laid by the FIAS report. The FIAS report suggested such a phased strategy for action, involving:

- The creation of political will and the strengthening of institutional frameworks for communication and coordination between government officials and business representatives;
- The broad-based involvement of the business sector and government at various levels, as well as the involvement of CPI and local authorities;
- Integration of transparency initiatives, performance awards, capacity-building among both government agencies and business associations, and increased private sector participation during implementation; and,
- Monitoring, evaluation, and adjustment.

This basic strategy should be applied in selected, specific areas, without insisting on reforming the entire administrative framework in which business and government interact.

Transparency should be the consistent theme in all areas and in all steps. The staged process should also incorporate the principles of simplicity, selectivity, and synergy. The process should begin with very modest goals to produce modest achievements, building progressive confidence in the process while laying a foundation for larger reforms. It should reward and publicize both group and individual performance to create pride and respect. Many large accomplishments start in this way, though they depend on inspired and dedicated leaders to carry them forward over long periods of time.

This gradual approach is particularly appropriate to the present capacity levels in Mozambique, and fits the situation, both in government and business, where political and private will is found in just a few able, constructive, and enthusiastic

individuals who are willing to work for lasting reforms. Accordingly, interventions should encourage and support the leadership and activities of the CTA in ways and in amounts consistent with the creation of *private* will. In other words, business must drive the effort; third-party monetary support should be discrete and discreet.

While the time available to the assessment team permitted no interviews outside Maputo or with government officials, conversations with businesspeople in the capital indicated that they have identified priority areas and that they are basically satisfied with the framework now in place for facilitating communication and coordination between government and business. Activities set out in the established "matrix" are in train, albeit at uneven speeds depending on subject and sector.

IV.C.2. Risks Involved in Addressing Red Tape

Any interventions promoting administrative reform, no matter how modest, will directly threaten the illegitimate incomes of civil servants. If the situation in Mozambique follows the common pattern, and petty corruption associated with red tape is simply a link in a corrupt chain connecting officials at all levels, both the heads of agencies and lower-level civil servants will be averse to collaborating in an effort which seeks to identify and correct specific conditions and is publicized to a broad audience. Whether the commitment of a few individuals is sufficient to prevail over widespread illicit interests is a significant risk in these interventions for reform.

A related risk pertains to the funder's capabilities and preferences. The recommended approach requires continuous, individualized attention to details and to human relations. "Policy reform," as the term is used in the development field, does not play a major role, while hands-on management, or what is sometimes unfairly referred to as "micromanagement," will be required. Management which closely accompanies and monitors performance in real time is a key attribute of successful business performance. In the scheme of things, engaged management requires relatively little money, but very great human resources, in the form of dedicated managers and participants with staying power and charisma.

Realistically speaking, even when local user groups are the primary actors, the strategy suggested here will require substantial project management support by the funder, as well as selected pressure on government. In other words, within its organizational constraints the funder must be willing, patient, and capable to support the process in real time.

IV.C.3. A Special Case: Access to Land

In a strategy to reduce barriers to trade and investment in Mozambique, access to land presents a special case meriting consideration on its own. According to the literature, access to land in Mozambique involves a troublesome process that can

consume up to two to three years. Although bureaucratic procedures regarding access to land are cumbersome, the core problem rests in the conciliation of conflicting interests, a resolution made particularly difficult by the absence of a land survey and a system for formalizing titles and the traditional rights of occupants. In Mozambique, as in most least-developed countries seeking to reduce unnecessary constraints to business activity, resolution of the land issue presents a formidable challenge.

To provide readily-available land for investors, some countries have identified large plots appropriate for industrial activities, cleared them of all legal claims, and launched international tenders for their management by private companies. Apparently, although Mozambique has tried this method of facilitating investment by setting aside property near Maputo, the effort failed.

The terms of this assessment do not include, or permit, time for consideration of why that effort failed. Nonetheless, it is worthwhile mentioning here that such zones can be useful and effective in freeing investors of unwarranted difficulties they face in connection with business start-up and operation. For some investors who would otherwise consider Mozambique, but are accustomed to countries competing for their business by clearing unnecessary hurdles, such zones would remove the obstacles created by the current system of procuring land.

Any strategy to lower barriers to trade and investment in Mozambique should therefore revisit the previous effort to establish special zones, including a careful analysis of why it failed and why others around the world have succeeded.

IV.D. ADDRESSING CORRUPTION

IV.D.1. Preliminary Consideration: The Extent of Political Will to Address Corruption

As described above under “*Systemic Approach*,” current research clearly identifies widespread corruption not as a happenstance but as a systemic consequence of policy decisions taken by the central authority. Consequently, more so than in any other areas of reform, the issue of political will from the highest level is crucial in any initiative to address the problem of corruption, as such initiatives go against the very core of the system that has been established with its interlocking networks of interests and political ties.

In Mozambique, as in many other countries, political declarations have been issued denouncing corrupt practices and promising actions against the guilty. However, such actions have been extremely slow in coming, and information as to the status of the various pending investigations remains scarce or nonexistent. It is therefore not surprising that the population seems to take the political declarations against corruption as pure rhetoric devoid of substance.

This assessment team did not have the mandate, or the time in-country, to assess the quality of the political commitment of the Mozambican authorities to address the issue of corruption. USAID officials living in Maputo have access to information that would allow them to make a much sounder judgment. It would suffice to say that, in the view of the assessment team, relying on political pronouncements, as sincere as they may sound, would probably fall short of a true test of political commitment under the current circumstances.

As addressing the issue of corruption is a condition *sine-qua-non* to set the proper foundation for sustainable long-term growth and the eradication of poverty, the issue cannot be bypassed by any international aid agency. The issue rather becomes what to do in the case of weak or nonexistent political commitment by the authorities to address the problem.

If the authorities do not show themselves ready to address the issue of corruption within the administration, progress can be made by working with organizations outside the public administration (at all levels) to raise the profile of the issue, and knowledge of its consequences, throughout the population. By such a campaign of public information and education on the national and local levels, the cost of inaction faced by the authorities will be raised through increased popular demand for reform, with consequent risks related to reelection prospects. International aid agencies can also contribute to raising the cost of inaction by the authorities through shifts in allocations for their programs.

If, on the other hand, public authorities demonstrate their commitment to addressing the issue of corruption, more direct work with public institutions can be initiated and funded, hopefully resulting in more rapid progress.

However, the existence of political will, and the possibility of direct work with the public administration, should not preclude supporting anti-corruption initiatives by the private business community and civil society organizations, as only a well-aware public can guarantee the sustainability of anti-corruption achievements.

IV.D.2. Proofs of Political Will and Commitment to Address Corruption

A strategy to reduce corruption through direct work with public authorities will be more likely to succeed if the authorities reverse their stance and become truly committed to eradicating corrupt practices. To encourage such a change, the strategy should raise the costs of inaction to a point exceeding the cost of action.

The questions then become:

- What constitutes an indicator of actual commitment?
- How can the costs of maintaining the status quo be raised?

Regarding **proof of commitment**, official declarations that are not followed by sustained effective actions remain just declarations of intention, action on which can be delayed indefinitely. Based on information from literature, interviews, and day-to-day conversations, this assessment has concluded that officials in Mozambique declare, but do not act, on the issue of corruption. The citizens of Mozambique have personally experienced pressure and abuse from officials; learned of egregious miscarriages of justice and mortal retaliation against those disclosing them; witnessed the construction of enormous homes for government officials; and, heard persistent rumors of large-scale expropriation of public monies. They no longer believe sanctimonious official pledges to combat corruption.

In this environment, for interventions to attract participant and public support for reform, and create mutually-reinforcing political and private will, there must be some proof of official commitment beyond mere statements.

The first overtures should be made to key government officials who have been identified as being interested in and capable of supporting reforms. If they prove willing, the strategy should start in their areas of responsibility. For instance, administrative procedures in their departments might be the first selected to reduce petty corruption. With respect to possible grand corruption, such as the allegations in the Banco Austral affair, nothing less than the arrests, arraignment, and trial of suspects may suffice to demonstrate commitment.

If the key officials do not demonstrate true commitment, progress will depend on raising the costs of inaction. Increased costs can be levied by a concerned and motivated citizenry and by the international agencies, who together are the major "investors" in Mozambique's political stability and economic growth.

IV.D.3. Stop-Loss: Private Business, Civil Society, International Agencies

Transparency is both the overriding principle and the most effective tool in encouraging *de facto* official commitment. By demanding information and disclosure of commitments, enforced by monitoring and sanctions, transparency raises the stakes of inaction.

- The **private business community** should push for transparency in each selected area and action, and should pledge support to candidates for public office who prove their commitment to change.
- Other **civil society** groups should promote transparency in their programs through consciousness-raising and monitoring groups, and should use the vote as a weapon against corruption.
- **International agencies** must promote transparency with respect to government administration and accounts, by demanding accurate reporting of the use of

funds and by both establishing conditions and enforcing them by withholding investment, and should consider retargeting funds to support anti-corruption initiatives in the private business community and civil society.

Not just in Mozambique, but everywhere in the world, "the phenomenon of corruption is like garbage. It has to be picked up every day." (Ignacio Pichardo Pagaza, Comptroller General of Mexico). The private business community, civil society at large, and the international financial institutions and donor agencies must make militant promotion of transparency, coupled with the effective threat of democratic and economic sanctions, a permanent component and condition of their activities and programs.

IV.D.4. Methods to Produce Transparency, Create Synergy, and Enforce Stop-Loss

The following lists are offered as a menu of activities and institutions which other countries have used in attempting to reduce corruption in public administration, or which persons in Maputo have presented in connection with this assessment. The lists are provided as a reference for USAID's strategic planning, subject to the caveat that inclusion of items does not suggest effectiveness as applied in other countries or applicability to Mozambique. With respect to activities that can be undertaken by civil society at large, Transparency International's "Corruption Fighters' Tool Kit," available on the Internet, is an invaluable source. The Tool Kit includes summaries of the problems addressed; areas of particular concern; the methods and context of implementation; and contacts for further information. With respect to activities that can be undertaken by governments, two books listed in *Exhibit 4* (the Bibliography) are particularly relevant: Corruption and Development in Africa: Lessons from Country Case Studies (Kempe and Chikulo) and Corruption and Government: Causes, Consequences and Reform (Rose-Ackerman).

The scope of this assessment does not permit meaningful comment on the listed initiatives. Brief comments are offered, however, where impressions in Maputo or the expressed interests of individuals involved in this assessment make some elaboration particularly appropriate.

Finally, many of the initiatives described below, in particular those described for the private business community and civil society organizations, can be implemented and supported even in the absence of strong political will on the part of the authorities, as they involve working outside of government.

IV.D.4.i. Means for the Private Business Community

- A **Business Code of Ethics** signed by firms committing themselves not to engage in corrupt practices with the administration and/or among themselves. Business associations could then request commitments from government authorities and

the international agencies not to procure from businesses that have not signed the Code.

- **Formal monitoring of the performance of key agencies**, including information on public procurement processes, awards, and contract performance.
- **Establishment and publication of standards** (SADC, EU, AGOA, WTO), to provide guidance and support for business and to allow the comparisons required for fair competition.
- **Publication of e-mail business weekly, manuals, and handbooks** regarding business practices and procedures.
- **On-going business education** regarding business practices and procedures.
- **Petitions on pressing issues** signed by business leaders and published in newspapers.
- **Class-action suits** by business associations against an institution for lost income and increased costs. If not appropriate to Mozambique's legal framework, this idea might be adapted to extra-judicial forums for dispute resolution. It would have the virtue of quantifying the costs of corruption in a specific area and providing a real-life example to publicize a problem. For instance, a selected legal action might quantify additional costs borne by a group of businesses over a specified period due to delays in customs processing. All funds eventually recovered would be paid to a special fund to be used for promoting social and business concerns, such as technical education.

IV.D.4.ii. Methods for Civil Society and its Representative Organizations

- A **Citizen Charter** in the form of an easily-understood guide for everyday use to promoting integrity and good citizenry (used in Mauritius).
- A **recurring national anti-corruption day** to raise and focus popular attention on the issue (used in Morocco).
- A campaign through **school curriculum** and pictorial means, such as **comics** for illiterate citizens, to increase popular awareness of the issues related to corruption (used in Paraguay and Morocco, respectively).
- A **database** of published articles related to corrupt practices in the country (used in Bangladesh).
- **Public monitoring of privatization processes**, including pre-tender discussions, negotiations, and final agreements (used in Bulgaria).
- **Citizen monitoring of draft legislation** to identify possible loopholes that might permit corrupt practices, as well as identifying legislators who introduce such provisions (used in Bulgaria).
- **Report cards** that score the performance of public institutions and their level of service, based on users' comments (used in India).
- Establishment of civil society organizations, such as **Concerned Citizens Committees**, to organize and publicize anti-corruption efforts (used in Bangladesh).

- **Investigative journalism** to increase the availability of information on corrupt practices. In countries or regions where corrupt powers tend to retaliate through physical violence or by other measures that severely affect the well-being of reporters and other media, the impact of investigative journalism will depend on the number of journalists, and of media personnel in general, that are willing to expose themselves in the absence of a system providing appropriate protection. The murder of Carlos Cardoso, allegedly for his persistent investigation of the Banco Austral affair, can only have imposed an extreme "chill factor" on journalism in Mozambique.
- **Citizen monitoring of operations of public institutions.** Although citizen monitoring is more easily accomplished in mutual collaboration with the public institutions, government participation is not a necessary condition. For instance, the external monitoring of institutional performance by business associations mentioned previously does not require the targeted institutions to participate. Furthermore, while some central institutions may be unwilling to collaborate, others, such as town halls and provincial administrations, may be more willing to engage in such an endeavor.

IV.D.4.iii. Methods for the Government of Mozambique

As previously mentioned, the complete transformation of the operations of Mozambique's public administration can only be achieved through an **acceleration of public sector reform**, leading to its modernization. In the meantime, a number of initiatives would contribute to increasing popular credibility in the fight against corruption by the authorities. Such initiatives implemented in other countries, to varying degrees of success, include:

- **Decentralization initiatives.**
- **Transparency vehicles.**
 - The promulgation of **Freedom of Information Laws**, which permit adequate citizen access to information on administrative operations.
 - **Mandatory publication of procurement details**, such as prices, quantities, and contractors (used in Colombia).
 - **Integrity pacts** among participants in public procurement (used in Columbia).
 - **Codes of Conduct for public officers** (used in Ghana, Sierra Leone, and Ethiopia).
 - **Freedom Squares** for citizen dialogue with political parties (used in Botswana).
- **Internal controls.**
 - **Offices of Ombudsman** at the different levels of the administration to receive complaints from the public, initiate initial investigations and, if warranted, refer them for possible prosecution. Such offices constitute the public administration counterparts of the monitoring initiatives undertaken by civil society organizations. The effectiveness of such institutions and their public

- credibility will depend on how the heads of the bureaus are selected and the extent to which they are protected from political and bureaucratic pressure.
- Strengthening **National Supreme Audit Institutions**, and open publication of their special studies and regular annual reports
 - **Commissions of Inquiry, Commissions of Investigation, and Special Investigation Teams** (used in Ghana and Zambia); **Anti-Corruption Agencies** (used in Ghana, Hong Kong and Singapore) **and Offices of Public Protector** (used in South Africa); **People's Defense Committees and Workers' Defense Committees** (used in Ghana).

Throughout the world, anti-corruption commissions and agencies, special enforcement officers, and decentralization efforts aimed at reducing corruption have often failed in their missions, and have even actually created more corruption. Common problems have involved the selection of unqualified or tainted commissioners; the suborning of commissioners once they are in office; the lack of effective enforcement powers; and, increased complexity and complications due to the additional new layers of authority in an already dysfunctional system. While the details in each case differ, the "net" of all of them is that a thoroughly corrupt system cannot combat corruption through new official structures in that same system. While the Hong Kong and Singapore experiences with anti-corruption agencies have been successful in some measure, and are widely hailed, both efforts were marked by commitment from the top echelons, effective enforcement powers, the political willingness to ensure the political independence of the agencies, and other attributes and contexts seemingly not present in Mozambique.

In Africa, the anti-corruption commissions and other initiatives to create "independent" government oversight have failed, usually spectacularly. Sometimes cited as relative successes, however, and worth further research, are Tanzania's Presidential Commission of Inquiry and Botswana's Directorate of Corruption and Economic Crimes.

IV.D.4.iv. Methods for USAID

- **Interventions**
 - Support specific initiatives from the private business community, civil society, and the Government of Mozambique that aim to increase transparency in commercial and public service ethics. As a provider of resources to the Government of Mozambique, USAID has a particular interest, and right, with respect to procurement matters.
 - Search for potential synergies among initiatives.
 - Advocate government disclosure, audit, strengthening of internal controls, and enforcement of anti-corruption policies.
- **Stop-Loss**

- Be prepared to discontinue support of initiatives that do not meet reasonably attainable benchmarks of success.
- Include a Code of Ethics in the contracts of all project employees, with contract termination stipulated in case of violation.
- Monitor interventions closely and in real time.
- **Coordination**
 - Work toward achieving coordination among donor-supported initiatives.
 - Advocate for proactive joint donor monitoring of the government's use of external assistance.
 - Consider conditioning assistance on donor representation on audit committees for national accounts and on the Board of Directors of any organization established to control corruption.

V. CONCLUSION

Mozambique faces formidable challenges in meeting its potential for economic growth. Increased business investment is crucial to maintaining the country's momentum toward the reduction of poverty and democratic stability. As shown, red tape and corruption in public administration create obstacles to investment and, thus, to the achievement of Mozambique's economic and governmental goals.

Working together, government and private business sector can lower, if not remove, both barriers. Corruption, by far the highest barrier, demands the urgent attention of government, civil society, business, and international agencies. Their efforts to reduce and control corruption must be:

- based on increasing transparency of government functions;
- appropriate to Mozambique's capacity levels; and,
- capable of attracting broad-based support.

To be heard and heeded, business must protest corruption through insistent pressure. Civil society must speak through the vote. International agencies must exercise investor rights. Whatever principles they espouse, the means they employ to fight corruption must not be temporary. Corruption is a constant, not a transitory, problem. Corruption must be controlled by social norms integral to the society and by permanent institutions integral to the system of government.

EXHIBIT 1: SCOPE OF WORK (SOW)

USAID/Mozambique Country Strategic Plan (CSP) ASSESSMENT OF CORRUPTION AND RED TAPE AS BARRIERS TO TRADE AND INVESTMENT

The Consultant will undertake an assessment of corruption and bureaucratic red tape as barriers to trade and investment in Mozambique, and make recommendations to USAID on whether and how effective interventions might be incorporated into its next country strategy plan. The assessment will be carried out by a short-term consultant team with relevant experience in the SADC region generally and Mozambique specifically. Additionally, the team must be familiar with USAID operating policies and procedures, including the strategic planning process. The team will be given local technical assistance and support by a local firm, contracted separately by USAID.

Background and Purpose

USAID/Mozambique is currently in the process of developing a six-year country strategic plan (CSP: 2004-2010) wherein the Mission will align its proposed strategic objectives with the Government of Mozambique's (GRM's) Action Plan for the Reduction of Absolute Poverty (PARPA). The PARPA has become the GRM's guiding strategy for all its development efforts. Alignment of USAID Mozambique's program with the PARPA will signal support for GRM's poverty reduction strategy. Moreover, it will enhance synergy across sectors, and increase management efficiency.

One proposed objective for the CSP: 2004-2010 is to increase labor-intensive exports. To achieve this goal the Mission plans to expand its private sector development program to help Mozambique create and sustain a policy, legal, and regulatory environment that will actively promote private investment and trade. The expansion of investment and trade will allow more sectors and enterprises, including labor-intensive and agricultural industries to share the benefits of economic reform, and thus contribute directly to PARPA's poverty reduction goals.

Considerable analytical work has been done over the last five years to identify the major constraints to investment and the contributors to the high costs of doing business in Mozambique. A recent study financed by USAID, FIAS and UNIDO identified the following as critical: access to commercial land, customs procedures, labor regulations (domestic and foreign), inspections and fines.

Objective

The purpose of this task order is to look specifically at red tape and corruption as they act as barriers to trade and investment and recommend whether and how USAID can effectively intervene in these areas over the strategy period.

Primary Study Activities

Corruption Barriers:

- Describe the problem in Mozambique – relate international experience to the Mozambique case.
- What is the cost of corruption to business and investment in Mozambique?
- What role can the organized private sector play in reducing corruption, and to what extent can USAID effectively assist them?
- More generally, what can USAID do to reduce the importance of corruption as a constraint to investment, productivity and competitiveness?

Red Tape Barriers:

- Conduct thorough review of literature on red tape in Mozambique – relate international experience to the Mozambique case.
- Examine the institutional framework that has recently been established to reduce red tape.
- With the assistance of local technical assistance (to be contracted by USAID separately), trace the requirements to establish three new business enterprises, e.g. tourism, garments, and food processing (e.g. fruit juice). Final selection to be determined in consultation with the mission.
- Assess the extent of overlapping requirements by different jurisdictions – central, provincial and municipal. How big is the problem and what can be done about it?
- What can and should USAID do to reduce the negative impact of red tape on trade and investment?

Data sources to be utilized include but are not limited to the following:

- Organised Crime, Corruption and Governance in the SADC Region: Mozambique; Threats Posed by the Penetration of Criminal Networks, Peter Gastrow and Marcelo Mosse (ISS Regional Seminar, April, 2002)
- Mozambique Country Economic Memorandum: Growth Prospects and Reform Agenda (World Bank, February, 2001)
- Moçambique Too Can Compete! (In Labor-Intensive Manufactured Exports), Soumodip Sarkar (Gabinete de Estudos Discussion Paper, no date)
- Mozambique: Continuing to Remove Administrative Barriers To Investment (Foreign Investment Advisory Services, FIAS, June 2001)
- Estudo Sobre Corrupção Em Moçambique: Relatório Final (Etica Moçambique, Julho 2001)

- Are donors to Mozambique promoting corruption? Joseph Hanlon (Open University, July 2002)

Expertise Required

International Technical Assistance (2). GBTI IQC Senior Level Trade Specialists with qualifications in international trade, trade protocols, business and investment. One specialist with background and work experience in identifying and removing red tape barriers through regulatory and policy reform, preferably in southern Africa and ideally in Mozambique. One specialist with background and experience in public- and private-sector corruption, its effects on business and investment, and its remediation. Both with familiarity with USAID programs and procedures, ideally including country strategy planning.

Deliverables

Approximately four weeks after start date, a formal presentation of draft findings will be made to USAID/Mozambique and their invited guests. At this time a written draft report shall be presented for formal written comment. The final report shall be delivered two weeks after receipt of USAID's written comments.

The final report shall address each of the substantive areas listed in the Study Activities section above, as well as contain a detailed executive summary.

The final written report shall be submitted as follows: five bound copies; one unbound copy; and two diskettes each containing all electronic files.

Clarifications by email

- The written sources referenced by the SOW will be available to the consultants upon their arrival in-country and are of sufficient breadth and quality to eliminate the necessity for extensive original research by the consultants on the basic situation in Mozambique
- The consultants' interviews of local people will concentrate primarily on private sector parties, as represented by associations and other representative groups
- The local firm contracted by USAID is primarily responsible for tracing requirements to establish businesses, with the consultants having advisory responsibility only in this regard
- The draft report will be no longer than 25 pages, and the Mission will comment very shortly thereafter.

EXHIBIT 2: PASSOS NECESSÁRIOS PARA A MONTAGEM DE UM NEGÓCIO EM MOÇAMBIQUE (prepared by SAL Consultaria e Investimentos, Lda.)

Passo	Acto	Timing	Quem faz	Instituição	Observação
Constituição do de Sociedade	Elaboração do projecto de estatutos	Uma semana	Jurista independente/Escritório de Advogado/Investidor		O Investidor pode optar por fazer os estatutos pessoalmente ou contratar um Advogado independente ou escritório de Advogados
	Elaboração de Requerimento de Certidão Negativa	Uma hora	Jurista independente/Escritório de Advogado/Investidor	Conservatória do Registo Comercial	Idem
	Resposta	Uma semana	Conservadora	Conservatória do Registo Comercial	A Certidão Negativa normalmente é emitida no máximo até uma semana
	Abertura da Conta Bancária	Meio Dia	Investidor	Qualquer Banco da Praça	O valor depositado constitui o montante de 10% do capital social já pago pelos subscritores da sociedade, o qual só poderá ser levantado depois do registo definitivo da sociedade

Passo	Acto	Timing	Quem faz	Instituição	Observação
	Escritura Pública	Dois dias	Notário ou Adjunto de Notário	Cartório Notarial	Dependendo da flexibilidade do Investidor ou dos seus Advogados e do próprio Cartório, nomeadamente no que toca a preparação dos estatutos e marcação da data da sua realização, a escritura pode ser celebrada em algumas horas
	Publicação dos Estatutos no BR *	Três meses	Imprensa Nacional	Imprensa Nacional	Após a celebração da escritura da escritura, uma cópia vai para a imprensa nacional para a publicação dos estatutos, na III Série
	Requerimento ao Registo Comercial	Uma hora	Jurista independente/Escritório de Advogado/Investidor	Conservatória do Registo Comercial	Idem quanto se disse em relação ao projecto de elaboração de estatutos
	Registo Provisório	Um mês	Funcionários da Conservatória do Registo Comercial	Conservatória do Registo Comercial	O Registo provisório, é uma forma de facilitar o processo do reconhecimento da sociedade, enquanto os

Passo	Acto	Timing	Quem faz	Instituição	Observação
					seus estatutos não forem publicados no BR, como se disse acima, o prazo é de 3 meses. Daí que o próprio registo provisório tenha também o mesmo prazo da publicação no BR
	Registo Definitivo	Um mês	Funcionários da Conservatória do Registo Comercial	Conservatória do Registo Comercial	Após a publicação dos estatutos no BR e sendo estes um requisito importante, efectua-se o registo definitivo, cuja certidão é emitida no prazo de um mês
Licenciamento/Alvará Ramo Industrial	Elaboração de Requerimento/Minuta própria	Uma hora	Jurista independente/Escritório de Advogado/Investidor	Ministério da Indústria e Comércio/Direcção Provincial da Indústria e Comércio	Idem quanto se disse sobre a elaboração do projecto de estatutos
	Vistoria *	Um a 15 dias	A vistoria é feita por uma equipa de técnicos da Direcção Provincial de Indústria	Direcção Provincial da Indústria e Comércio	A inclusão dos últimos elementos, visa verificar se o local da sede reúne condições de

Passo	Acto	Timing	Quem faz	Instituição	Observação
			e Comércio, que integra ainda técnicos das Direcções Provinciais de Saúde e membros do Corpo de Bombeiros		saúde e segurança para a actividade pretendida realizar pela sociedade
	Resposta/Emissão ou não do Alvará *	Um mês	Direcção Provincial da Indústria e Comércio	Direcção Provincial da Indústria e Comércio	Após a vistoria, se esta concordar com o local, é emitido respectivo Alvará
Ramo de Turismo	Elaboração de Requerimento/Dirigido ao Ministro do Turismo	Uma hora	Jurista independente/Escritório de Advogado/Investidor	Ministério do Turismo/Direcção Provincial do Trabalho	Idem em relação ao que se disse na elaboração do projecto de estatutos
	Vistoria *	Um a 20 dias	A equipa de vistoria é composta pelos seguintes elementos: 2 elementos da entidade licenciadora, 2 elementos dos Serviços de Saúde, 2 elementos do corpo de bombeiros, 1 elemento da PRM, neste caso	Ministério do Turismo/Direcção Provincial do Turismo	Embora a vistoria seja feita em um dia, a entidade licenciadora, deverá fazer a vistoria no prazo de 20 dias, a contar da data da entrega do requerimento. O requerente ou seu representante legal deve estar presente no acto da vistoria.

Passo	Acto	Timing	Quem faz	Instituição	Observação
			quando se trata de unidade de turismo rural ou agro – turismo de classificação única.		Importa referir que existem condições específicas para cada grupo hoteleiro, que é estabelecido de acordo com o tipo de unidade hoteleira
	Resposta/Emissão do Alvará *	5 dias	Ministério do Turismo/Direcção Provincial do Turismo	Ministério do Turismo/Direcção Provincial do Turismo	Havendo condições técnicas, é dado o despacho da emissão do alvará. Caso contrário, o requerente é comunicado para reparar as deficiências e em seguida é feita nova vistoria
Aquisição do NUIT	Requerimento/Preenchimento do Modelo 6	Uma hora	Jurista independente/Escritório de Advogado/Investidor	Ministério do Plano e Finanças/Repartição das Finanças do local da sede da empresa	Idem em relação ao que se disse na elaboração do projecto de estatutos
	Atribuição do NUIT	Um mês	Ministério do Plano e Finanças/Repartição das Finanças do Local da Sede da	Ministério do Plano e Finanças/Repartição das Finanças do Local da Sede da Empresa	O Modelo 6 com o NUIT, é levantado na Repartição de Finanças da sede da sociedade. Por exemplo, no

Passo	Acto	Timing	Quem faz	Instituição	Observação
			Empresa		caso da Cidade de Maputo, se a sede da sociedade for no Bairro da Polana, será competente a Repartição das Finanças do 1º Bairro Fiscal, localizado na Baixa da Cidade
Início da Actividade	Requerimento de Comunicação ao Ministério do Trabalho anunciando o início da actividade.	Uma hora	Jurista Independente/Escritório de Advogado/Investidor		Idem em relação ao que se disse na elaboração do projecto de estatutos
	Comunicação ao Ministério do Trabalho da lista dos gestores e dos trabalhadores.	Uma hora	Jurista Independente/Escritório de Advogado/Investidor	Ministério do Trabalho/Direcção Provincial do Trabalho	Ibidem
	Havendo trabalhadores estrangeiros é necessário requerer a permissão de trabalho para os gestores e	Um mês para cada caso	Jurista Independente/Escritório de Advogado/Investidor	Ministério do Trabalho/Direcção Provincial do Trabalho	Ibidem

Passo	Acto	Timing	Quem faz	Instituição	Observação
	autorização de trabalho para os contratados. *				
	Inscrição dos trabalhadores no INSS	Uma semana	Investidor	INSS	Normalmente este assunto é tratado pelo Departamento dos Recursos Humanos da Sociedade ou por Advogados

Notas de Observação:

- O timing total para a montagem de um negócio em Moçambique dura entre 5 a 6 meses.
- Os passos referidos para a Indústria/Comércio e Turismo podem servir como padrão em relação a outros sectores da economia.
- Nas partes do quadro onde se apresenta a sinalética *, representa os sectores onde existe maior probabilidade de corrupção. Os funcionários podem inviabilizar o processo, enquanto o investidor não proceder o pagamento de luvas para o seu andamento.

Maputo, 26 de Outubro e 2002

EXHIBIT 3: ILLUSTRATIVE CASES OF RED TAPE

Employment of Expatriates.

The regulation of employment of expatriates in Mozambique should be reviewed by applying the criteria for administrative requirements set forth in Section 2.1.

Mozambique has a right to control work by foreigners on its national territory, and therefore its requirements of residence visas and work permits have, nominally at least, a purpose related to a legitimate government right. A review of the procedures themselves and information from reports and independent interviews conducted during this assessment, however, suggests violations of other criteria.

- It is unclear what value is added in requiring the employer to provide the Employment Center with a declaration that the vacancy was advertised for 10 days, without responses from qualified nationals, or why it takes the Center 10-15 days thereafter to provide the employer a permit to see foreign applicants. In similar situations in other countries, companies can always tailor advertisements to the qualifications of a particular candidate; the bureaucracy will not be competent to assess whether the advertised requirements for the position meet the actual needs of the company.
- Further, approval of the request by the Ministry of Labor (MOL) is subject to “opinions” from the concerned workers’ unions and from the line ministry, opinions with doubtful substantive value-added.
- Finally, approval by the MOL does not necessarily imply approval of a residence visa (DIRE) by the Immigration Authority.

From a review of the process, one may well question the objective of these requirements. While it may be in the national interest to supervise the activities of foreigners in the country, the procedures seem in fact geared toward excluding foreigners at the cost of discouraging foreign investors and limiting technological transfers, resulting in an overall negative impact on national employment.

Furthermore, the multiple steps without substantive justification add to the costs faced by business. In that regard, the fact (as reported by an interviewee) that it may be more difficult to renew a contract than to hire a replacement expatriate is disturbing, since the necessary familiarization of a new person with the country and the operations of the firm will limit that person’s effectiveness for up to several months.

In addition, the procedures themselves are less than transparent. Although Decree 75/99 allows a 15% quota for expatriate hiring, it remains unclear if hiring within the quota is automatic or subject to prior approval.

Finally, according to the studies and interviewees, there is little consistency in the approval process.

Industrial Licensing

The purpose of licensing in Mozambique remains unclear. If the purpose is to inform the authorities about business activities in the country, several questions arise.

- First, is the documentation required by the Government actually necessary? Why is it useful to the Government to have the full drawings of industrial installations and a detailed description of the project, including the number and gender of workers to be hired?
- Second, is there a system for follow-up? If the purpose is to ensure that public safety, health, and environmental concerns are respected, the question becomes whether the current approach of pre-approval of the project is the most appropriate. Publishing manuals outlining the requirements for different types of installations, and then making operations conditional on inspections confirming that all criteria described in the relevant manual have been met, would be more efficient to address these concerns. This approach would also free human resources from the central bureaucracy and assign them to ensuring compliance with the law and the regulations. As it is, the current system increases costs to investors without ensuring that the standards are respected.

It is relevant here to mention the issue of on-going inspections. According to the FIAS report, “many agencies cannot provide clear information on standards used by their staff [during inspections] and cannot assist the investors who are willing to meet the standards. The situation is aggravated by a lack of competence and often by a poor attitude by low-level officers.” On many occasions, companies are refused a clear explanation of why they are penalized and how their fines are being determined. Hence, there seems to be very little correlation between the existing system of both pre-approval of projects and on-going inspections, and the declared intended outcome of respect for public safety, health, and environmental standards.

EXHIBIT 4: BIBLIOGRAPHY

- Bayard, Jean-François, Ellis, Stephen, and Hibou, Béatrice. The Criminalization of the State in Africa. International African Institute, 1999.
- Caiden, Gerald E, Dwivedi, O.P., and Jabbra, Joseph. Where Corruption Lives. Kumarian Press, 2001.
- Charap, Joshua, and Harm, Christian. "Institutionalized Corruption and the Kleptocratic State." IMF Working Paper WB/99/91, 1999.
- Dabla-Norris, Era. "A Game-Theoretic Analysis of Corruption in Bureaucracies." IMF Working Paper WP/00/106, 2000.
- Drabek, Zenek and Paynes, Warren. "The Impact of Transparency on FDI." World Trade Organization Staff Paper ERAD-99-02, revised November 2001.
- Dye, Kenneth, and Stapenhurst, Rick. Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption. World Bank/Economic Development Institute, 1998.
- Emery, James J., Spence Jr., Melvin T., and Bueher, Timothy S. "Administrative Barriers to Foreign Investment: Reducing Red Tape in Africa." FIAS Occasional Paper, 2000.
- Ética Moçambique. Mozambique Corruption Report 2001. Ética Moçambique, 2001.
- Foreign Investment Advisory Services. Mozambique: Continuing to Remove Administrative Barriers to Investment. World Bank, 2001.
- Gastrow, Peter, and Mosse, Marcelo. "Mozambique: Threats Posed by the Penetration of Criminal Networks," ISS Regional Seminar "Organized Crime, Corruption and Governance in the SADC Region." Pretoria, April 2002.
- Hanlon, Joseph. "Are Donors to Mozambique Promoting Corruption?" Paper, Conference "Toward a New Political Economy of Development," Sheffield, England, July 2002.
- Hanlon, Joseph. "Killing the Goose that Lay the Golden Egg." Metical, Maputo, September 2001.
- International Organisation of Supreme Audit Institutions (INTOSAI). Internal Control: Providing a Foundation for Accountability in Government. An Introduction to Internal Control for Managers in Governmental Organisations. INTOSAI, 2001.

Johnson, Simon, Kaufmann, Daniel, and Zoido-Lobaton, Pablo. "Corruption, Public Finances and the Unofficial Economy." World Bank Discussion Paper, 1998.

Kaufman, Daniel, and Wei, Shang-Jin. "Does 'Grease Money' Speed up the Wheels of Commerce?" IMF Working Paper WP/00/64, 2000.

Kempe Sr., Ronald Hope, and Chikulo, Bornwell C., Editors. Corruption and Development in Africa: Lessons from Country Case Studies. Palgrave, 2000.

Kindra G.S. and Stapenhurst, Rick. Social Marketing Strategies to Reduce Corruption. World Bank/EDI, 1998.

Larsen Alex and Ytsen, Flemming. "Freedonia: A Case Study in Investigative Journalism" case and teaching notes. World Bank/EDI, 1996.

Rose-Ackerman, Susan. Corruption and Government: Causes, Consequences and Reform. Cambridge University Press, 1999.

Sarkar, Soumodip. "Mozambique Too Can Compete! In Labor-Intensive Manufactured Exports." Gabinete de Estudos Discussion Paper #14, November 2000.

Schiavo-Campo, Salvatore, Editor. Governance, Corruption and Public Financial Management. Asian Development Bank, 1999.

Stapenhurst, Rick. The Media Role in Curbing Corruption. World Bank Institute, 2000.

Tanzi, Vito. "Corruption Around the World: Causes, Consequences, Scope and Cures." IMF Working Paper WP/98/63, 1998.

Tanzi, Vito. "The Role of the State and the Quality of Public Service." IMF Working Paper WP/00/36, 2000.

Tanzi, Vito, and Davoodi, Hamid. "Corruption, Public Investment and Growth." IMF Working Paper WP/97/139, 1997.

Tanzi, Vito, and Davoodi, Hamid. "Roads to Nowhere: How Corruption in Public Investment Hurts Growth." IMF Economic Issues # 12, 1998.

Tanzi, Vito and Prakash, Tej. "The Cost of Government and the Misuse of Public Assets." IMF Working Paper WP/00/180, 2000.

Transparency International. The Corruption Fighters' Tool Kit: Civil Society Experience and Emerging Strategies. Transparency International, 2001.

USAID/Mozambique. "Concept Paper for the Country Strategic Plan 2004-2010."
USAID/Mozambique, February 2002.

Wei, Shang-Jin. "How Taxing is Corruption on International Investors?" National Bureau of Economic Research Working Paper No. W6030, May 1997.

Westcott, Clay, Wherlé, Frédéric, and Fenner, Gretta, Editors. Progress in the Fight against Corruption in Asia and the Pacific. OECD, 2002.

World Bank. "Mozambique: Country Economic Memorandum: Growth Prospects and Reform Agenda." World Bank Report # 20601-MZ, 2001.